

Transient Occupancy Tax Fund

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T*o provide funding for the Conventions, Arts and Entertainment Operating Subsidy, Cultural Grants, and the San José Convention and Visitors Bureau*

Beginning in 1982, the City Council initiated a 6% Transient Occupancy Tax (TOT) on all hotel/motel rooms in San José. The revenues are collected in the TOT Fund (461) and the increment of growth is distributed by formula to three program categories: the Conventions, Arts and Entertainment Operating Subsidy (50% of the TOT increase), Cultural Grants (25% of the TOT increase) and the San José Convention and Visitors Bureau (25% of the TOT increase)

Transient Occupancy Tax Fund

Budget Summary

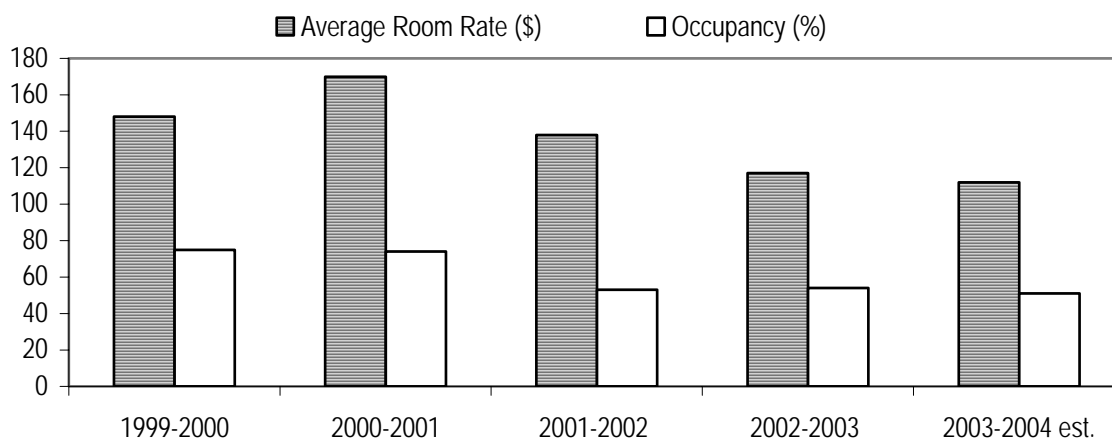
| | 2003-2004 Adopted | 2004-2005 Proposed | Change |
|---------------------------------------|----------------------|-----------------------|---------|
| CAE Operating Subsidy | \$ 4,438,740 | \$ 3,879,865 | (12.6%) |
| Cultural Grants | \$ 2,764,323 | \$ 2,256,886 | (18.4%) |
| San José Convention & Visitors Bureau | \$ 2,412,688 | \$ 2,133,250 | (11.6%) |

Budget Highlights 2004-2005

- Although a modest (2%) increase from the projected current year collection level for Transient Occupancy Tax (TOT) revenue is anticipated, this would still represent a total well below recent years due to a 13.7% drop in revenue in 2002-2003 and a 37.7% drop in collections in 2001-2002. For 2004-2005, the revenue estimate presumes slight growth as a result of additional hotel rooms and a modest recovery.
- Projected revenues for 2004-2005 and adjustments to account for undercollection in 2003-2004 will result in a 11-13% drop in the allocations for the three recipient organizations when compared to 2002-2003 Adopted Budget Levels.

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TOT Indicators: Room Rates and Occupancy



Transient Occupancy Tax Fund

Fund Overview

The 2004-2005 Proposed Budget for the City's Transient Occupancy Tax (TOT) Fund presumes a 2% growth over the level of revenue expected to be collected in fiscal year 2003-2004. This modest increase reflects the combined impact of an expected mild recovery from the recent three year drop in the travel industry, and the presence of additional hotel rooms. The serious impact of the slowdown in the local economy and the travel industry is illustrated by a review of the recent history of the revenue source. The 2003-2004 estimated collection level is about 2.4% below that of the 2002-2003 actual collection level. In turn, the 2002-2003 collection level was 13.7% below that of the 2001-2002 actual collection level, which was 37.7% below that of 2000-2001 actual receipts.

By ordinance, the TOT Fund is used to provide funding for the Conventions, Arts and Entertainment (CAE) Operating Subsidy, Cultural Grants, and the San José Convention and Visitors Bureau (CVB).

As a result of poor performance in revenue, two actions were taken after the 2003-2004 Adopted Budget. The first was a reduction of

transfers to the three recipients in the 2002-2003 Annual Report to account for a \$600,000 revenue shortfall from that year. The second was a further reduction in the transfer as part of the 2003-2004 Mid-Year Budget Review to account for what was then estimated to be a likely \$900,000 revenue shortfall for 2003-2004. Since then, unfortunately, the status of this revenue source has declined further. We now estimate it will experience an additional \$500,000 shortfall in revenue. If that turns out to be the case, all three recipients will have again received overallocation of proceeds. As was the case earlier this year, these overages will need to be taken back as a net decrease to their 2004-2005 allocation. Thus, the amount shown for 2004-2005 for CAE, Cultural Grants and CVB have been reduced by \$250,000, \$125,000 and \$125,000 respectively. The apparent larger decrease in the allocation in 2004-2005 for Cultural Grants actually reflects the fact that the 2003-2004 budget included a one-time rebudget of unexpended 2002-2003 grants in the amount of \$228,000.

The ending fund balance is made up of a reserve for encumbrances, reserve for loans outstanding, and unrestricted fund balance.

Transient Occupancy Tax Fund

Fund Summary

| | 2002-2003 Actual 1 | 2003-2004 Adopted 2 | 2004-2005 Estimate 3 | 2004-2005 Proposed 4 | % Change (2 to 4) |
|-------------------------------|--------------------------|---------------------------|----------------------------|----------------------------|-------------------------|
| Dollars by Sources | | | | | |
| Beginning Fund Balance | \$ 1,722,125 | \$ 829,641 | \$ 1,436,778 | \$ 657,767 | (20.7%) |
| TOT Revenues | 8,800,000 | 9,987,750 | 8,587,750 | 8,770,000 | (12.2%) |
| Interest | 53,381 | 100,000 | 100,000 | 100,000 | 0.0% |
| Total | \$ 10,575,506 | \$ 10,917,391 | \$ 10,124,528 | \$ 9,527,767 | (12.7%) |
| Dollars by Uses | | | | | |
| CAE Operating Subsidy | \$ 3,406,052 | \$ 4,438,740 | \$ 5,003,695 | \$ 3,879,865 | (12.6%) |
| Cultural Grants | 3,358,777 | 2,764,323 | 2,425,378 | 2,256,886 | (18.4%) |
| SJ Convention/Visitors Bureau | 2,303,010 | 2,412,688 | 2,037,688 | 2,133,250 | (11.6%) |
| Rev Enhancement Consulting | 36,000 | 0 | 0 | 0 | N/A |
| Technical Assistance Prog. | 34,889 | 0 | 0 | 0 | N/A |
| Ending Fund Balance | 1,436,778 | 1,301,640 | 657,767 | 1,257,766 | (3.4%) |
| Total | \$ 10,575,506 | \$ 10,917,391 | \$ 10,124,528 | \$ 9,527,767 | (12.7%) |

Transient Occupancy Tax Fund

Budget Category: Conventions, Arts and Entertainment Operating Subsidy

Budget Category Overview

The CAE Operating Subsidy supports administration, maintenance, and operations at the Convention and Cultural Facilities, which include the Convention Center, Center for Performing Arts, Montgomery Theater, Civic Auditorium, Parkside Hall, and McCabe Hall. The remaining operating costs are funded by operating revenues from these facilities, which are captured in the Convention and Cultural Affairs Fund. Because the total operating expenses are not delineated by funding source, the specific operations supported by TOT funding cannot be isolated. Personal services and non-personal/equipment expenses, which

are partially funded by the increment of growth in the TOT, appear in the CAE Department section of this document.

Approximately 47.1% of the total 2004-2005 TOT revenue is allocated to fund a portion of the operating expenses at the Convention and Cultural Facilities.

The higher figure for the 2003-2004 estimate is due to a deferred transfer of \$1.3 million from 2002-2003 to 2003-2004 to alleviate the cash flow situation in this fund. No other recipients were affected by this situation.

Budget Category Summary

| | 2002-2003 Actual 1 | 2003-2004 Adopted 2 | 2004-2005 Estimate 3 | 2004-2005 Proposed 4 | % Change (2 to 4) |
|-----------------------|--------------------------|---------------------------|----------------------------|----------------------------|-------------------------|
| CAE Operating Subsidy | \$ 3,406,052 | \$ 4,438,740 | \$ 5,003,695 | \$ 3,879,865 | (12.6%) |
| Total | \$ 3,406,052 | \$ 4,438,740 | \$ 5,003,695 | \$ 3,879,865 | (12.6%) |

Transient Occupancy Tax Fund

Budget Category: Cultural Grants

Budget Category Overview

Each year, the Arts Commission solicits and evaluates applications for funding under the Cultural Grants category (using criteria approved by the City Council). The Arts Commission then submits recommendations for Cultural Grants and Technical Assistance Grants to the City Council for consideration during the annual budget process. Approximately 27.2% of the total 2004-2005 TOT revenue is allocated to fund Cultural Grants. Additional grant funding is provided by the General Fund, but

is transferred into the Convention and Cultural Affairs Fund, which appears elsewhere in this document. Any unexpended Cultural Grant funding is rebudgeted for expenditure in the next fiscal year.

Detailed information for the 2004-2005 TOT Cultural Grants program is not yet available. Grants will be awarded later in the budget process and will be listed in this section in the Adopted Budget to provide a picture of the City's Cultural Grants Program.

Budget Category Summary

| | 2002-2003 Actual 1 | 2003-2004 Adopted 2 | 2004-2005 Estimate 3 | 2004-2005 Proposed 4 | % Change (2 to 4) |
|-----------------|--------------------------|---------------------------|----------------------------|----------------------------|-------------------------|
| Cultural Grants | \$ 3,358,777 | \$ 2,764,323 | \$ 2,425,378 | \$ 2,256,886 | (18.4%) |
| Total | \$ 3,358,777 | \$ 2,764,323 | \$ 2,425,378 | \$ 2,256,886 | (18.4%) |

Transient Occupancy Tax Fund

Budget Category: San José Convention and Visitors Bureau

Budget Category Overview

Approximately 25.7% of the total 2004-2005 estimated TOT revenue is allocated to the San José Convention and Visitors Bureau (CVB). The City contracts with the CVB to provide long-term booking of events at the Convention Center, market the Convention Center, promote traveling to San José for business and pleasure, and assist visitors.

CVB also receives funding from the General Fund (shown in the City-Wide Expenses section of this document) and other sources such as San José businesses, restaurants, and hotels to provide similar services, which are not represented here.

Budget Category Summary

| | 2002-2003 Actual 1 | 2003-2004 Adopted 2 | 2003-2004 Estimate 3 | 2004-2005 Proposed 4 | % Change (2 to 4) |
|-------------------------------|-----------------------------------|------------------------------------|-------------------------------------|-------------------------------------|----------------------------------|
| SJ Convention/Visitors Bureau | \$ 2,303,010 | \$ 2,412,688 | \$ 2,037,688 | \$ 2,133,250 | (11.6%) |
| Total | \$ 2,303,010 | \$ 2,412,688 | \$ 2,037,688 | \$ 2,133,250 | (11.6%) |